A Review of Rural Industrial Taxation and Industrial Tax Transfers

Situation Analysis

Submitted to

Alberta Municipal Affairs

by

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May 26, 1989

(88-889)

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Appendix

A.	Map of Alberta Rural Municipalities

1. INTRODUCTION

Rural and urban local governments have maintained separate existences since their formation in the early years of Alberta. Urban municipalities, some of which predate the province, were established to organize the provision and financing of services to residents in relatively densely populated communities. Rural municipalities evolved, commencing in 1912, from provincially administered units to provide local responsibility of services, primarily roads, for the sparsely populated agricultural regions. Until that time roads, such as they were, were provided either by the provincial (or territorial) government or through statute labour of nearby settlers.

The distinctly agricultural orientation of rural municipalities has endured with many of them today having little commercial, industrial or residential development. Since about 1950, however, large-scale industrial operations have located within rural municipalities, with most of their sizeable complement of employees residing in incorporated urban centres. These developments fundamentally altered the financial arrangements of incorporated local governments. Rural municipalities enjoyed significant increases to their taxation base, which up until that time consisted essentially of agricultural lands, with generally minimal impacts on the services to be provided. Urban municipalities, however, had to provide services to the employees of these industrial concerns but without the benefit of their property taxes. This apparent inequity was observed by the McNally Commission in respect of the then Strathcona Municipal District and led to their suggestion that "the taxes from such industry should be allocated to the city which is called upon to furnish the educational and numerous municipal services arising from the residence of the workers".[1]

Further, the Provincial Treasurer of the day, The Honourable R.W. Hinman, in his 1956 memorandum entitled *Time for a New Deal in Municipal Finance*[2], questioned the legitimacy of property taxes levied on industrial and other large properties accruing solely to the advantage of the municipality in which they were located.

1. Government of Alberta. **Report of the Royal Commission on the Metropolitan Development of Calgary and Edmonton**, Ch. 12, pp. 24-25.
2. Tabled in the Alberta Legislature in March, 1956.

Clearly the issue of rural industrial taxation is not only of recent concern, but is perhaps of increased importance at the present time. Rural industrial development has occurred in several areas of Alberta as the provincial economy has diversified and this practice is anticipated to continue in light of recently announced projects in the forestry, petrochemical and mining sectors.

Alberta Municipal Affairs commissioned Nichols Applied Management to review industrial tax transfers (I.T.T.) between improvement districts and urban municipalities and related rural industrial taxation issues of a more general nature. The activities of this study have included:

- analyzing the past and current situation of industrial tax transfers, including their significance to receiving municipalities, the industrial improvement districts and the industries located therein; and

- evaluating the current financial and tax situation of the affected municipalities.

An overview of the I.T.T. and its implications to the affected parties is provided in the next section of this report. Section 3 describes inter-municipal financial arrangements in general and the incidence of "imbalanced" municipalities. This is followed by a brief description of industrial taxation practices beyond Alberta. This report concludes with a summary of observations in Section 5.

2. OVERVIEW OF INDUSTRIAL TAX TRANSFER

2.1 DEFINITION

The Industrial Tax Transfer (I.T.T.) is a payment made by an industrial Improvement District (ID) to an incorporated urban municipality within the ID's boundaries. It is meant to compensate for the location of industry that employs residents of an urban municipality outside the boundaries of the city, town or village. While the urban municipality is responsible for providing services to its residents, the ID has the industrial assessment on which to generate tax revenue. In Alberta and elsewhere, the provision of residential services is generally supported by industrial and commercial taxes. In the absence of this non-residential assessment base, the urban community is in a weak fiscal position and its residents are likely subjected to higher than average taxes. Communities that have developed specifically as a result of external industries, as in the examples of Fort McMurray, Swan Hills and Rainbow Lake, are characteristically the most out of balance.

An urban municipality within an industrial ID receives a dollar amount for each of its residents employed by industry located outside of its boundaries and their unemployed dependants, if they are also living in the urban municipality. Currently the amount of the I.T.T. is $60 per eligible individual. An urban municipality located in a county or municipal district does not receive an I.T.T., even if it houses employees of industry within an ID. Urban municipalities within a Special Area receive $120 per resident industrial employee.

The I.T.T. is a surtax levied on all resource and processing improvements within an industrial ID's boundaries. An ID may be declared industrial, and the surtax levied, under the authority of the Improvement Districts Act. For the purposes of the surtax, industrial improvements consist of machinery and equipment, power and pipe lines, and industrial buildings.

The act provides that the I.T.T. be paid to the urban municipality by the surrounding ID for employees who reside in the urban centre; however, certain exceptions are made. For example, the Town of Fox Creek, located within ID 16 receives I.T.T. payments from this ID and ID 15 because a significant number of the town's residents work at a plant located in ID 15. Also, Fort McMurray receives I.T.T. payments (of a lesser amount per person) for the residents of nearby camps, although these people are not

residents of the city itself. This additional payment is deemed necessary because the residents of the camps use some of the facilities of Fort McMurray. This latter exception does not seem to be in keeping with the purpose of the I.T.T., which appears intended to act as an equalizer for an imbalanced tax assessment situation and not as a cost sharing arrangement.

2.2 HISTORICAL SUMMARY

The six improvement districts in Alberta that are classified as industrial and subject to the I.T.T. are ID's 14, 15, 16, 17, 18 and 23. (See map of Alberta Rural Municipalities in the Appendix).

Three additional ID's were classified as industrial, but two have since become municipal districts and are not subject to the I.T.T. (MD of Clearwater #99 and MD of Bighorn #8), and the third (ID 6 - Crowsnest Pass) is no longer considered industrial. There still exists a reduced ID 8 that is classified as industrial, but no I.T.T. is levied.

There are currently sixteen urban municipalities which receive I.T.T. payments. Previously, there were nineteen recipients, but some of the towns have annexed the industry concerned, thus removing the need for the I.T.T., while others were affected by the transition of the surrounding municipality from ID to MD.

Although the total I.T.T. paid has been split among several ID's, a large and increasing share is composed of payments made by ID 18. Figure 1 shows the total I.T.T. paid in 1976, 1981, 1986, and 1987, and the relative share of ID 18 versus the rest of the industrial ID's. The amounts of the I.T.T. payments in 1986 by ID and receiving municipality are indicated in tables 2.1 and 2.2, respectively.[1]

While the I.T.T. is of some significance to the recipients and the ID's involved, the total payments made by all ID's combined has never exceeded $2,000,000, and does not represent a substantial amount in comparison to total net municipal tax revenues.[2] Expressed as a percentage, for the industrial ID's, the I.T.T. ranged from 4% to 17% of net municipal taxes for general purposes in 1986 and from 4% to 61% a decade earlier. As

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1 The 1987 payments changed little from those in 1986. The 1987 net municipal tax revenues were not available for all communities but likely the relative significance of the I.T.T. has not altered.

2 The I.T.T. amount is not included in net municipal tax revenue. Hence the percentage figures indicate the effective surtax of the I.T.T., averaged over the ID's assessment base.

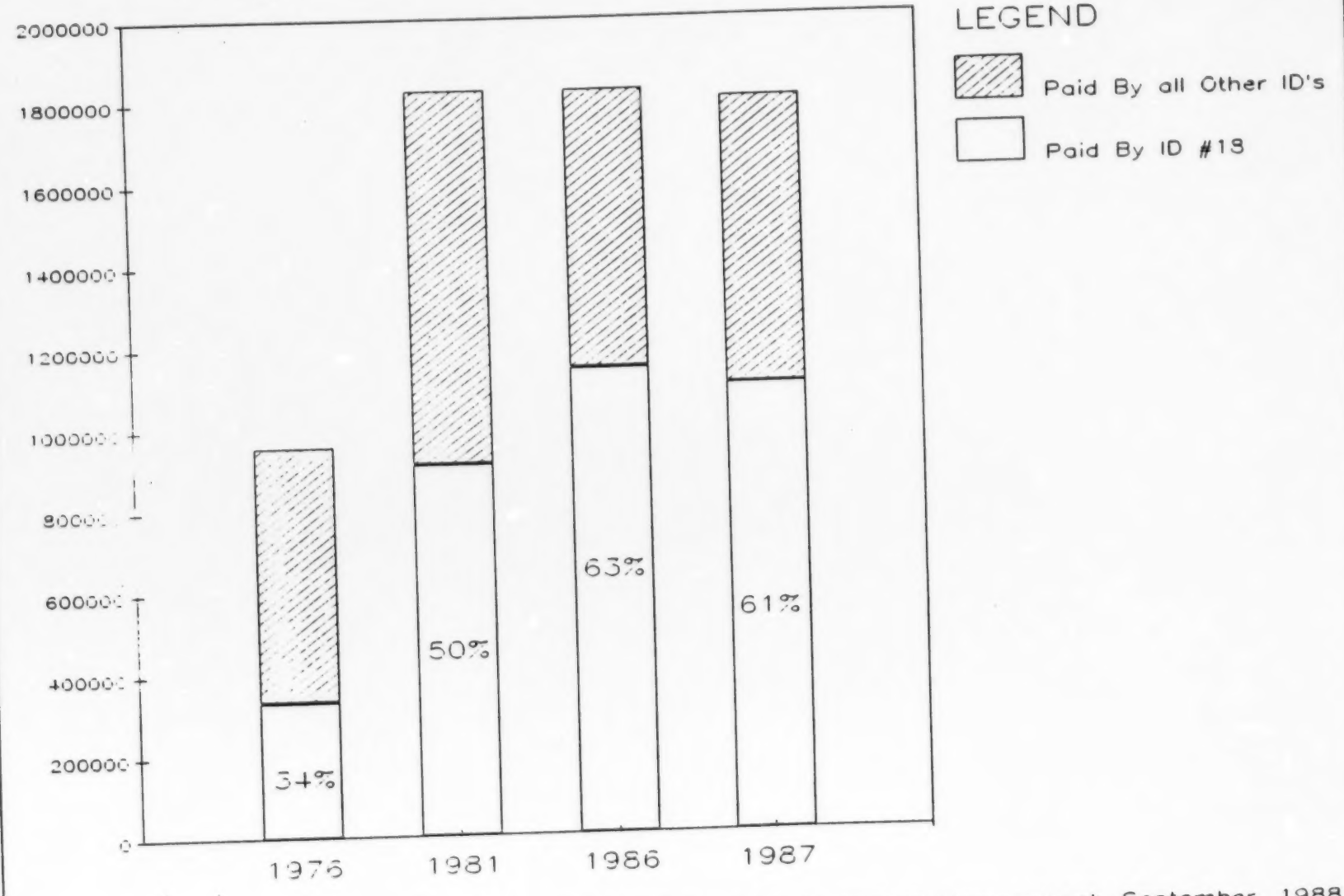
indicated in Table 2.1, all of the recent I.T.T. payments are well under 10% of net tax revenue except for ID 18.

Table 2.1
I.T.T. Payments Relative to Net Municipal Tax Revenue Industrial ID's

	1986 ($)	1986 (%)	1976 (%)
ID 8	n/a	n/a	8.2%
ID 10	n/a	n/a	3.6%
ID 14	247,140	7.0%	11.2%
ID 15	66,420	3.8%	4.1%
ID 16	190,080	5.9%	23.3%
ID 17	133,080	4.1%	9.4%
ID 18	1,142,920	17.1%	61.1%
ID 23	46,680	3.9%	4.0%
TOTAL	1,826,340		

The same measure for the recipients ranged from less than 1% to 17% in 1986, and from less than 1% to 36% in 1976, as indicated in Table 2.2. These percentages indicate the amount by which mill rates would have increased if the I.T.T. revenue was not received. For some of the communities receiving I.T.T. payments, the Town of Valleyview in particular, the amount received has fluctuated widely from year to year, likely as a result of several employers with a small number of employees and fluctuating demand for labour. For several municipalities, the I.T.T. cannot be considered significant.

Figure 1. Historical Summary



Prepared by: Nichols Applied Management, September, 1988.

Table 2.2
I.T.T. Revenues Relative to
Net Municipal Tax Revenue
I.T.T. Recipients

	1986 ($)	1986 (%)	1981 (%)	1976 (%)
ID 14				
Hinton	141,660	4.5%	5.8%	6.4%
Edson	103,320	5.3%	4.1%	9.4%
Evansburg	1,200	0.5%	n/a	n/a
Wildwood	960	0.8%	n/a	n/a
ID 15				
Whitecourt	48,660	4.5%	5.6%	10.6%
ID 16				
Fox Creek[1]	68,460	13.6%	13.8%	22.6%
Valleyview	24,120	4.0%	14.6%	7.0%
Grande Cache	115,260	9.0%	14.2%	24.9%
ID 17				
Peace River	15,180	0.9%	n/a	n/a
Slave Lake	51,240	4.0%	5.1%	9.5%
Swan Hills	63,360	5.6%	12.7%	36.1%
Kinuso	3,300	5.7%	10.1%	24.2%
ID 18				
Fort McMurray	1,142,040	6.8%	8.3%	11.1%
Lac La Biche	900	0.1%	0.2%	0.8%
ID 23				
Rainbow Lake	38,220	16.7%	22.4%	24.5%
High Level	8,460	1.0%	2.0%	3.2%
TOTAL	1,826,340	n/a	n/a	n/a

1 Fox Creek received I.T.T. revenue from ID 15 as well as ID 16 ($17,760 and $50,700, respectively, in 1986)

2.3 I.T.T. IN COMPARISON WITH COST SHARING AGREEMENTS

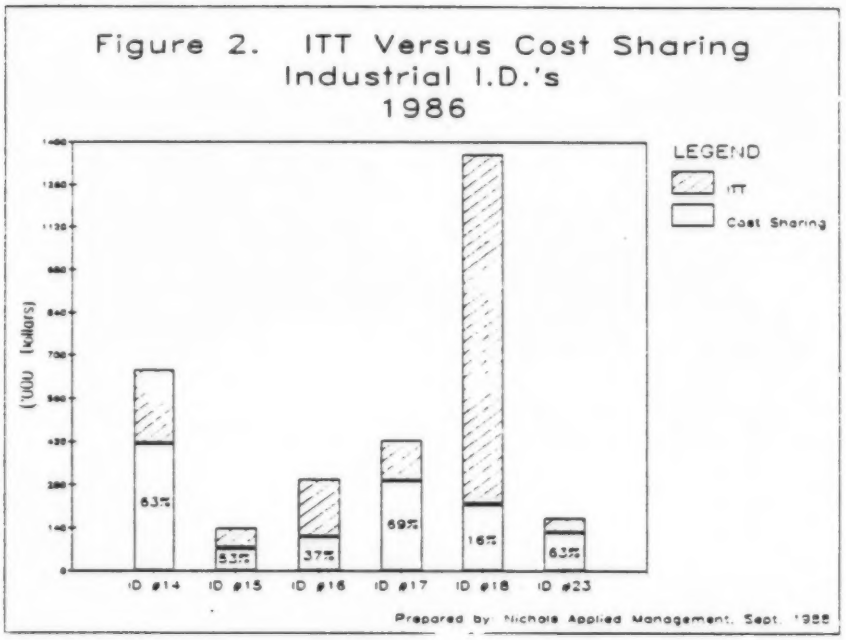
In 1986, four of the six industrial ID's made contributions over and above I.T.T. to incorporated municipalities through cost sharing agreements that exceeded payments made through the I.T.T.. Only ID's 16 and 18 contributed more through I.T.T. payments.

The relative significance of cost sharing revenue versus I.T.T. to receiving municipalities varied substantially. Fox Creek's revenues from ID's consisted only of I.T.T. payments whereas essentially all of Peace River's

revenue from the ID is composed of cost sharing payments. This variation is understandable, as some urban municipalities have few residents employed in industry outside of their boundaries.

Figure 2 shows the composition of payments from the industrial ID's to the urban municipalities within their boundaries.

Figure 2. ITT Versus Cost Sharing
Industrial I.D.'s
1986



2.4 RELATIVE TAX BURDEN OF I.T.T.

The relative tax burden of the I.T.T. to industry varies from ID to ID as is apparent from the net equalized mill rate calculated for the I.T.T. indicated in Table 2.3. The tax burden of the I.T.T. on industries in ID 18 is four times that of ID 15 or ID 17, and is at least double that in the other industrial municipalities. The disparity in tax burden is due primarily to the I.T.T. being levied on all resource and processing properties, not only those employing urban residents, and to variations in the labour intensity of the industrial employers.

Table 2.3
I.T.T. Net Equalized Mill Rate[1]

ID 14	1.3
ID 15	0.7
ID 16	1.4
ID 17	0.7
ID 18	2.8
ID 23	1.1

1 Calculated as the total I.T.T. payments divided by the estimated equalized assessment of the properties on which the I.T.T. tax was levied

2.5 FINANCIAL AND EMPLOYMENT OVERVIEW OF INDUSTRIAL ID'S AND I.T.T. RECIPIENTS

The imbalanced assessment between the industrial ID's and the urban municipalities concerned has resulted in dramatically differing degrees of financial stability for these municipalities. The ID's have had the opportunity to amass significant reserves, while some of the urban municipalities are extremely unstable in a financial sense.

The municipalities receiving I.T.T. payments have been separated into three groups. This categorization of those urban centres is somewhat subjective, but is done simply to allow comparisons of urban municipalities with similar financial and employment characteristics.

Category A consists of isolated resource centres that developed as a result of the industry in the ID. These towns are the most out of balance in that they characteristically have a low percentage of industrial and commercial assessment within their boundaries, resulting in higher than average property taxes.

In addition to financial similarities, all of the urban municipalities in category A have more than 30% of their resident employed labour force employed in a resource-based industry outside of their municipal boundaries.

Category B encompasses resource towns that have some industry within their boundaries in addition to the industry in the surrounding ID, and are therefore more balanced. Although one could argue that Grande Cache should be part of category A, the inclusion of the correctional institution within the boundaries of the town has given this centre a more balanced assessment split than those in Category A.

In category B the percentage of the resident labour force employed outside of urban municipality boundaries ranges from a low of 4% to a high of 31%, which occurs in the town of Grande Cache. (This also gives evidence that Grande Cache could be grouped with the centres in Category A.)

Category C is a collection of other towns and villages, that have essentially no industry within their corporate limits, but are centres of commerce for a farming and industrial community. While there is not an appreciable amount of industrial assessment within their boundaries, there is some commercial assessment which gives these centres better balance than those in Category A, but poorer than those in Category B.

In category C, the percentage of the resident labour force employed in a resource industry outside of urban municipal boundaries is generally low. With the exception of Kinuso and Valleyview, this measure is consistently 5% or lower.

Tables 2.4 and 2.5 (at the end of this section) give an indication of the financial position of each of the urban recipients and the industrial ID's, respectively, along with averages for each type of municipality.[3] Table 2.6 shows the percentage of the resident labour force in each urban municipality employed in resource-based industries outside of municipal boundaries.

The percentage of equalized assessment composed of SFPF[4] assessment is a measure of the industrial and commercial assessment in each municipality. In general, the higher such assessment, the stronger the

3. Comparative data for municipalities located near rural industry elsewhere in the province are provided on Chapter 3.

4. Assessments which are taxed for the School Foundation Program Fund (SFPF) do not include residential and farm properties.

financial position of the municipality. The composition of assessment bases is illustrated in figures 3 and 4.

The isolated resource centres in Category A have on average the highest municipal taxes on a reference property (TMT), the highest equalized mill rate for general municipal purposes (EMR), and the lowest percentage of equalized assessment composed of SFPF assessment (SFPF%). I.T.T. payments represent a significantly higher percentage of net municipal tax revenue (ITT/REV) in this category than in the other two.

The centres in Category B are the most financially sound of the recipients, with lower than average municipal taxes and equalized mill rates, and higher than average percentage of equalized assessment composed of SFPF. These towns receive less in the way of I.T.T. payments (measured as a percentage of municipal tax revenue) than the centres in Category A, but more than those in Category C.

Centres in Category C, while displaying the least relative benefit from I.T.T. payments, fall between categories A and B in all of the other measures of financial well-being.

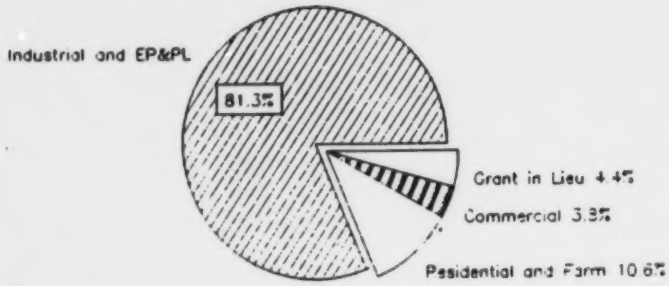
The *net liquidity position*, defined to be net current assets less long-term debt, has been estimated for each municipality. While this measure may be somewhat inaccurate due to variations in methods of accounting for reserve funds encumbered for construction and other projects, it is a good indicator of the relative wealth of the municipalities. All of the industrial ID's are in a significantly positive position in terms of net liquidity per capita (as described in Tables 2.4 and 2.5) while, on average, all categories of urban municipalities within those ID's are in a negative net liquidity position (three of the sixteen I.T.T. recipients have positive net liquidity).

Except for the Special Areas, the industrial ID's have some of the lowest taxes on a reference property (TMT) in the province, the lowest equalized mill rates, and the highest percentage of equalized assessment composed of SFPF assessment. The percentage of equalized assessment composed of industrial and power and pipe line assessment alone exceeds 80% in all of the industrial ID's except ID 23. A somewhat lower tax rate in the ID's would be expected as there are fewer services provided by the ID than there are in urban municipalities. However, it is unlikely that the difference in services provided is to the extent that these measures of financial stability differ.

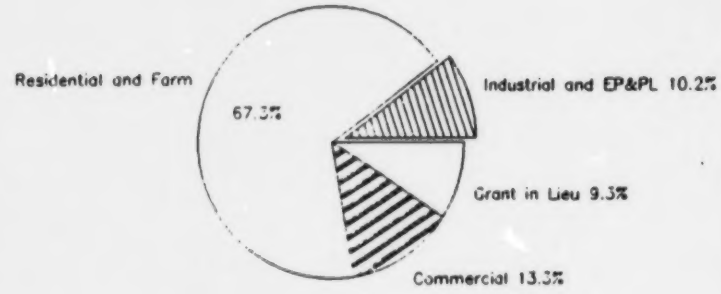
Figure 3. Equalized Assessment Composition

Industrial ID's versus Urban Municipalities

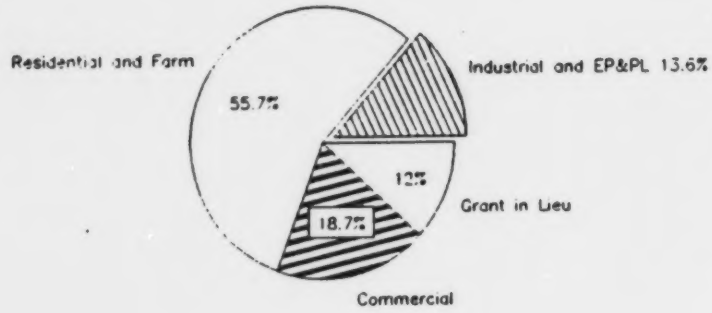
1986



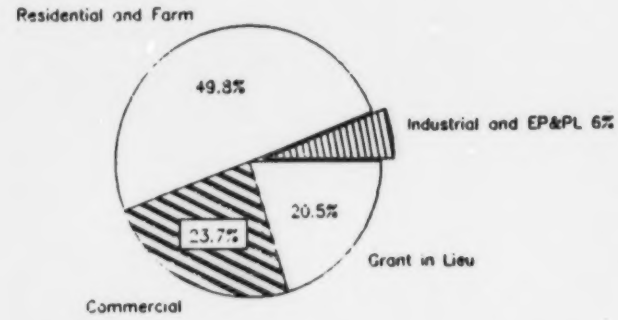
Industrial ID's



Urban Category A



Urban Category B



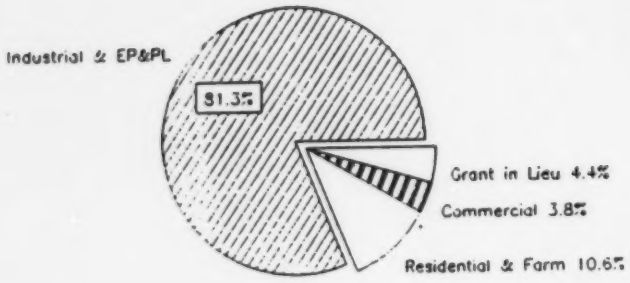
Urban Category C

Prepared by: Nichols Applied Management, Sept, 1988

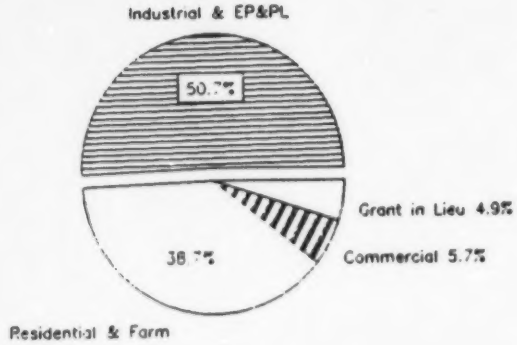
Figure 4. Equalized Assessment Composition

Industrial Id's vs Other Rural Municipalities

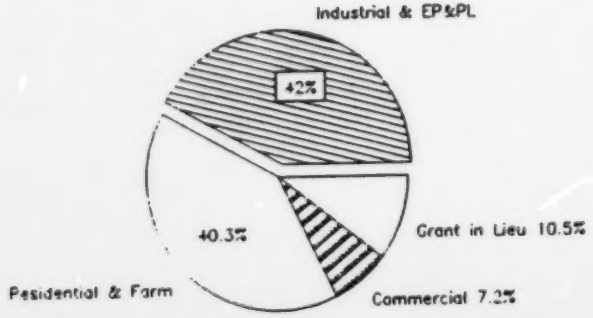
1986



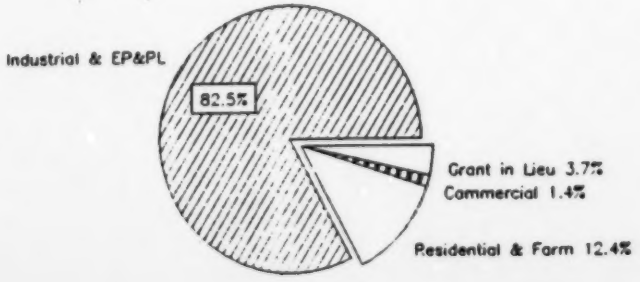
Industrial ID's



All Counties



All MD's



All ID's

Prepared by: Nichols Applied Management, Sept, 1988

Table 2.4
Financial Indicators for I.T.T. Recipients

	POP'N	TMT	EMR	SFPF %	I.T.T./REV	Net Liquidity
Category A						
Fort McMurray	36810	1.314	79.5	23%	7%	(1969) [1]
Rainbow Lake	1008	1.027	82.8	31%	17%	48
Swan Hills	2497	1.411	99.2	32%	6%	(962)
Fox Creek	1978	664	48.5	30%	14%	(196)
Average		1.104	77.5	29%	11%	(770)
Category B						
Whitecourt	5497	351	29.6	47%	5%	(1336)
Hinton	8904	795	43.3	48%	5%	119
Edson	7110	597	41.3	45%	5%	(580)
Slave Lake	4838	839	48.8	40%	4%	(1813)
Grande Cache	4624	810	63.3	40%	9%	(84)
Average		678	45.3	44%	6%	(739)
Category C						
Valleyview	2232	1.071	55.6	44%	4%	(1218)
Peace River	6355	408	44.4	44%	1%	(1083)
Lac La Biche	2242	847	56.8	47%	0%	(1033)
Wildwood	450	811	68.5	33%	1%	(455)
Evansburg	769	901	70.9	32%	1%	(1326)
Kinuso	285	793	92.2	44%	6%	420
High Level	3003	405	42.6	30%	1%	(1059)
Average		748	61.6	39%	2%	(822)
Provincial Aggregates						
Cities		679	52.5	41%	n/a	n/a
Towns		746	41.1	35%	n/a	n/a
Villages		664	48.9	41%	n/a	n/a

1. Adjusted for funds in trust for holdbacks for construction projects and unexpended urban transportation grants.

LEGEND

POP'N:	1986 populations as per Alberta Municipal Affairs
TMT:	Total Municipal Taxes on a Reference Property (1987)
EMR:	Equalized Municipal Tax Mill Rate (1986)
SFPF%:	Percentage of Equalized Assessment subject to SFPF levy (1987)
ITT/REV:	ITT Payments as a Percentage of Municipal Tax Revenue (1986)
Net Liquidity:	Current assets (including term deposits) less current liabilities, trust accounts, and long term debt. Expressed in $ per capita.
Source:	Residential Property Survey 1987 (Alberta Municipal Affairs), 1986 AMFIS comparative analysis reports, 1986 financial statements.

Table 2.5
Financial Indicators for Industrial ID's

	POP'N	TMT	EMR	SFPF %	I.T.T./REV	Net Liquidity
ID 14	8119	216	17.1	89%	7%	1355
ID 15	2670	341	23.7	91%	4%	2045
ID 16	5350	198	23.2	91%	6%	1668
ID 17	12041	200	18.1	84%	4%	1246
ID 18	9605	174	17.5	94%	17%	2127
ID 23	6563	756	20.8	79%	4%	825
Average		314	20.1	88%	7%	1544
Provincial Aggregates						
ID's		361	23.2	86%	n/a	n/a
MD's		443	29.3	51%	n/a	n/a
Counties		505	37.3	56%	n/a	n/a
Special Areas		152	16.8	62%	n/a	n/a

LEGEND

POP'N: 1986 populations as per Alberta Municipal Affairs
TMT: Total Municipal Taxes on a Reference Property (1987)
EMR: Equalized Municipal Tax Mill Rate (1986)
SFPF%: Percentage of Equalized Assessment subject to SFPF levy (1987)
ITT/REV: ITT Payments as a Percentage of Municipal Tax Revenue (1986)
Net Liquidity: Current assets (including term deposits) less current liabilities, trust accounts, and long term debt. Expressed in $ per capita.

Source: Residential Property Survey 1987 (Alberta Municipal Affairs). 1986 AMFIS comparative analysis reports, 1986 financial statements.

TABLE 2.6
Outside Employment for I.T.T. Recipients

	Resident Employed[1] Labour Force	Employed in Resource-Based Industry Outside of Urban Municipality	% of Resident Labour Force
Category A			
Fort McMurray	17,282	7,762[3]	45%
Rainbow Lake	370	203[2]	55%
Swan Hills	1,200	401[3]	33%
Fox Creek	949	357[3]	38%
Category B			
Whitecourt	2,693	236[2]	9%
Hinton	4,158	647[2]	16%
Edson	3,371	477[2]	14%
Slave Lake	2,755	295[3]	11%
Grande Cache	1,650	507[2]	31%
Category C			
Valleyview	920	165[3]	18%
Peace River	3,129	92[3]	3%
Lac La Biche	1,100	10[3]	1%
Wildwood	127	6[2]	5%
Evansburg	240	5[2]	2%
Kinuso	80	16[3]	20%
High Level	1,550	41[2]	3%

1. Statistics Canada, "Profiles - Alberta: Part 2", September, 1988.
2. Estimates based on 1987 I.T.T. payments divided by 3.5 (ie. 2.5 dependents per employee).
3. Based on actual number of employees on which 1985 or 1986 I.T.T. payments were calculated.

3. INTER-MUNICIPAL FINANCIAL ARRANGEMENTS

The last chapter described the experience of industrial tax transfer (I.T.T.) - one specific inter-municipal financial arrangement which involves the transfer of an industrial property surtax from a number of improvement districts to urban municipalities located within them. In this chapter, we outline inter-jurisdictional financial linkages in general and discuss the incidence of municipal imbalance.

3.1 REVENUE AND COST SHARING

Apart from I.T.T., there is minimal sharing of tax revenue between municipalities (and even I.T.T. is technically not sharing since it is a surtax). The Town of Rocky Mountain House has received funds from M.D. of Clearwater (No. 99), formerly ID No. 10, equivalent to the I.T.T. it received from the former ID. This amount is currently about $62,000 and due to expire December 31, 1990.[1] The County of Leduc may enter into an agreement to share revenue from the Edmonton International Airport with the City of Leduc, but this would be primarily the result of provincial coercion. Also, ID 22 has suggested an arrangement apart from I.T.T. to share a portion of the tax revenue to be received from the Diashowa pulp mill with nearby municipalities.

In general, municipalities consider municipal tax revenue from properties within their borders to be theirs exclusively. This position is understandable since any formal move on their part to apportion this revenue with other municipalities could result in a permanent restructuring of their taxation base.

Municipalities do, however, engage in cost sharing practices. These take the form of contracting for or purchasing services, contributions and joint participation in regional boards and authorities. Examples of the latter include rural fire, ambulance and recreation districts as well as library boards. Although not municipal in nature, school divisions and county school systems also reflect inter-community cooperation and the sharing of an assessment base.

1. The original agreement expired on December 31, 1987, but was renewed for another three years.

The net flow of funds from cost sharing agreements tends to be from rural municipalities (excluding the Special Areas) to urban municipalities, as indicated in Table 3.1. This is not unexpected, as urban municipalities generally provide more services than do their rural counterparts. The revenue from local governments is estimated as the sum of sales to other governments and local government capital and conditional grants. Payments to local governments are represented by grants to other governments. It is assumed that the majority of grants to other governments are made to local governments. As the fourth column in Table 3.1 indicates, payments to other governments are most significant from the improvement districts where they amount to 5% of all capital and operating expenditures. The net outflow of funds to other governments is also highest in absolute terms from the improvement districts. This may reflect the less densely populated nature of ID's and their provision of fewer services relative to other rural municipalities.

We believe cost sharing should be encouraged between municipalities wherever it is mutually beneficial. Cost sharing is an appropriate approach where there are services, such as road maintenance or fire fighting, which benefit more than one community and which have well defined cost implications.

Cost sharing, however, does not resolve weak assessment bases which are the result of an employment imbalance caused by the location of a major employment generator outside of an urban municipality. The "net cost" of residential development, which is offset by the "net gain" from commercial and industrial properties in a balanced community, is not a cost that can be readily identified and attributed directly to a rural municipality. Cost sharing hence cannot address the issue of which municipality is more logically entitled to industry and its associated tax revenue.

3.2 INCIDENCE OF MUNICIPAL IMBALANCE

As indicated in the introduction, a significant proportion of recent and future economic development in Alberta consists of large industrial operations located in rural municipalities. These so-called *mega-projects* convey significant economic, financial and social impacts upon nearby urban communities. The urban municipalities must provide services to the mega-project's employees and their dependents, yet they do not have any access to its considerable assessment apart from industrial tax transfers.

TABLE 3.1
1986 Cost Sharing Indicators by Municipality

	Revenue from Local Governments[1] ($000's)	% of all Operating and Capital Revenue	Payments to[2] Local Government ($000's)	% of all Operating and Capital Expenditures	Net Flow of Funds From Other Governments ($000's)
Towns & Villages	6,395	1.5%	1,480	0.3%	4,915
MD's and Counties	1,269	0.3%	1,916	0.5%	(647)
Improvement Districts	10	0% [3,4]	3,287	5.0%	(3,277)

1. Sum of sales to other governments and local grants.
2. Grants to other governments.
3. Less than 0.1%
4. 1985 revenues and expenditures, as 1986 data unavailable.

The spin-off economic benefits to the urban communities ameliorate the employment imbalance caused by a mega-project but such economic activity should not be construed as a direct financial benefit to the municipality. Such growth is balanced involving both commercial and residential development (for the businesses' employees) but it does not offset the imbalance caused by the location of a plant outside a municipality's jurisdiction in the first place.

There are a number of locations throughout Alberta where employment and financial imbalance exists between rural and urban municipalities. This imbalance is typically caused by one or more large resource-based projects such as petrochemical plants, mines and pulp mills although it can also result from a military base or a civilian airport. Examples of existing and potential imbalanced situations pertaining to improvement districts are described along with available measures of imbalance in Table 3.2.

TABLE 3.2
Overview of Existing and Planned Projects

	Total Direct Employment	% of Project Employment	Resident Employed Labour Force [1]	% of Employed Labour Force	Annual Municipal Taxes ($ million)
EXISTING PROJECTS					
Esso Resources - Cold Lake (ID 18)	500				.5
By Community: Cold Lake	200	40%	1,556	13%	
Grand Centre	130	26%	2,045	6%	
Bonnyville	120	24%	2,255	5%	
MD of Bonnyville	50	10%	n/a	n/a	
Syncrude Canada Ltd. (ID 18) [2]	5,510				
Suncor Inc. (ID 18)	2,460				
By Community: Fort McMurray	7,574	95%	17,282	44%	4.9
ID 18 and Other	398	5%	n/a	n/a	.7
					Approximate Construction Cost [3] **($ million)**
PLANNED PROJECTS					
Diashowa Canada Co. Ltd. (ID 22)	600				500
Shell Peace River Experimental Project (ID 17)	300				575
Affected Communities:					
Peace River	500	56%	3,129	16%	
Grimshaw	100	11%	1,045	10%	
Manning	100	11%	434	23%	
ID 22 & Other Urban	200	22%	n/a	n/a	

1. Statistics Canada. "Profiles - Alberta: Part 2". September, 1988.
2. Including AEC power plant.
3. Municipal taxes will likely be in the order of $1 million annually for each of the Diashowa and Shell projects.

3.3. GUIDELINES FOR IDENTIFYING IMBALANCED COMMUNITIES

While the Improvement Districts Act makes a provision by which an ID may be deemed industrial, it does not specify what measures are used to determine an industrial classification. Any guidelines used should be explicit.

An imbalanced community, whether in an industrial ID or not, can be identified by the presence of a significant industrial project (or several smaller projects) in the region which employs a significant portion of the community's resident labour force. The definition of significant may be somewhat arbitrary but should take into consideration the project's assessment and employment both in absolute terms and relative to the assessments and labour forces of the affected communities.

In some cases, the majority of employees at a project are residents of a nearby town, village or city, and it could be argued that this urban centre is entitled to receive revenue generated from that project in order to balance the cost of providing residential services to those employees. In some cases however (especially when the urban municipality is a city or large town), the employment at the project represents an insignificant percentage of the urban municipality's resident labour force, and the assessment may also contribute an insignificant increase to the community's overall assessment. The imbalance still exists but the potential benefit to the urban municipality is likely far less than the potential loss to the rural municipality. In addition some revenue should accrue to the rural municipality to compensate for the cost of providing services to the project.

In conclusion, we suggest that thresholds be devised in respect of the absolute magnitude of a project (in terms of assessment, tax revenue, employment or a combination) and in respect of its relative impact (possibly in combination with other rural developments) upon an urban centre that must be exceeded before assessment or revenue sharing would occur. In this manner, only significant impacts would be addressed, thereby avoiding excessive administrative effort.

4. EXPERIENCE ELSEWHERE

Alberta is not unique in having major industrial developments occur in predominantly rural areas or in being concerned with the allocation of revenues from such properties to local governments. A review of the literature supplemented with telephone interviews revealed the practices of a number of jurisdictions in Canada and United States.

Most of the published literature on tax base sharing addresses sharing among municipalities in a metropolitan context. The most widely studied and likely first example of this was in metropolitan Minneapolis-St. Paul, Minnesota. Although the circumstances of this and other situations analyzed are much different than those in rural Alberta, their experiences provide valuable lessons. In particular the growth sharing formula which was adopted in Minneapolis-St. Paul is fundamentally flawed and resulted in unintended consequences.

In Ontario the preferred organization of northern resource communities is to establish a municipality containing the industrial plant or mine within its jurisdiction, involving annexation if necessary. In northern Ontario most of the land, covering about one-half of the province, is without municipal organization. While local service boards are created to deliver specific services such as water or sewer there is no rural municipal jurisdiction with taxing authority in these areas. The province of Ontario does however levy a land tax but this is not allocated to municipalities.

Large municipalities are created as a result of Ontario's annexation policy. For example the City of Timmins, with 46,000 residents, encompasses some 300,000 hectares or almost 1,200 square miles.

A different solution was applied in the case of the Hemlo gold mining area. Of the three mines in the area, the employees of two of them reside in one community (Marathon) while those of the third and centrally-located Noranda mine reside in the somewhat more distant community of Manitouwadge (which already contained another Noranda mine). Because annexation of the appropriate mines would not have resulted in contiguous municipal boundaries, the Extra-territorial Taxation Act was enacted in 1988 for this exceptional case. Under this legislation the assessments of the three mines are allocated and added to the tax roll of each of the two municipalities in proportion to the number of employees residing in each location. This assessment is taxed as is any other property assessment.

The issue of rural industrial taxation is not as significant in southern Ontario because many municipalities (townships) were initially established to include the rural area surrounding settlements and in most locations, a second tier regional government is in place to provide the costlier services. Nonetheless annexation is still applied on occasion to include a major industrial plant within the appropriate municipal boundaries.

The provinces of British Columbia, Manitoba, and Quebec also appear to favour including major resource developments within urban boundaries. The communities of Tumbler Ridge, B.C., Labrador City, Quebec, and Thompson, Manitoba each encompass and tax their respective mining establishments.

Saskatchewan commenced sharing of property tax revenues from potash mines in 1969. Mine revenues are allocated to all municipalities whose borders lie within 20 miles of the mine head by a complex formula taking into account population and distance from the mine. Furthermore, rural municipalities in the aggregate receive 90% of these revenues while urban municipalities, providing they have less than 5,000 in population, receive only 10% in total. The mill rate levied on a mine is a weighted average of the rates of rural municipalities within the vicinity of the mine. In 1984, a total of $4.1 million from mines in 9 municipalities was distributed to 41 rural and 46 urban municipalities. Of this amount, 56% was returned to the 9 municipalities in which the mines were located.

In North Dakota a different approach was adopted. Property taxation is less significant to urban communities than in Alberta because of a two-tier county system of government and the non-taxation of machinery and equipment. In place of the latter, the State instituted severance and coal conversion taxes for mining and electrical generation operations, respectively. A portion of these taxes is allocated directly to local municipalities based on their population and land assessment according to a complex formula. In North Dakota, along with Wyoming, a portion of sales tax revenue is also allocated to each locality.

In Montana and Wyoming, local authorities levy property taxes on machinery and equipment. In addition the State levies a production tax on mines, and in the case of Montana, on electricity production. These latter taxes do not appear to be allocated directly to local municipalities.

5. SUMMARY OF OBSERVATIONS

The preceding chapters outlined the financial circumstances of improvement districts and incorporated rural municipalities which have major employment-generating developments located within their borders as well as that of nearby urban communities. Key observations arising from this review include:

- A dramatic financial disparity exists between industrial ID's providing I.T.T. payments and the urban recipients of this revenue. Of all Alberta municipalities, the ID's enjoy among the greatest non-residential assessment bases, lowest tax levels and largest accumulation of surpluses and revenues. Conversely, many of the nearby urban municipalities which house much of the employment of the rural industry have weak assessment bases and experience some of the highest tax levels in the province.

- The financial situations of the I.T.T. recipients vary from centre to centre. These differences stem from the employment imbalance of several of the urban centres. For the communities with particularly high tax levels, the primary employers of the residents are located beyond their municipal boundaries, thereby resulting in an overwhelming reliance on the residential tax base for the financing of the community.

- The municipal tax revenues derived from the major projects exceed the costs of providing rural services to them. The servicing impacts of these projects are typically minor consisting primarily of road maintenance or provision of infrastructure and in some cases are negligible. In addition, much of the public capital requirements is met by other levels of government.

- The municipal cost impacts of the spin-off urban residential development can be considerable but, with the exception of the modest I.T.T. received by those within ID's, these are not offset by the considerable non-residential revenues now received by rural municipalities.

- In most cases, the local educational authorities are regional in nature (eg. counties and school divisions) and derive tax revenues from the major projects thereby offsetting their spin-off educational impacts.

- Municipal mill rates vary widely across the province. Depending on the jurisdiction, municipal taxes on an identical plant (or similar project) could differ by several million dollars per year.

APPENDIX A

Map of Alberta Rural Municipalities

I.D. 24
I.D. 23
Wood Buffalo National Park
Fort Vermilion
I.D. 18
Peace River
I.D. 17
Slave Lake
Lesser Slave
Wabasca
Edson
Jasper National Park
Rocky Mountain House
Banff National Park
Canmore
Kananaskis Country
Waterton National Park
Industrial I.D.'s